Financing Options for SR 520 Bridge Project

Panel Presentation to the Joint Transportation Committee

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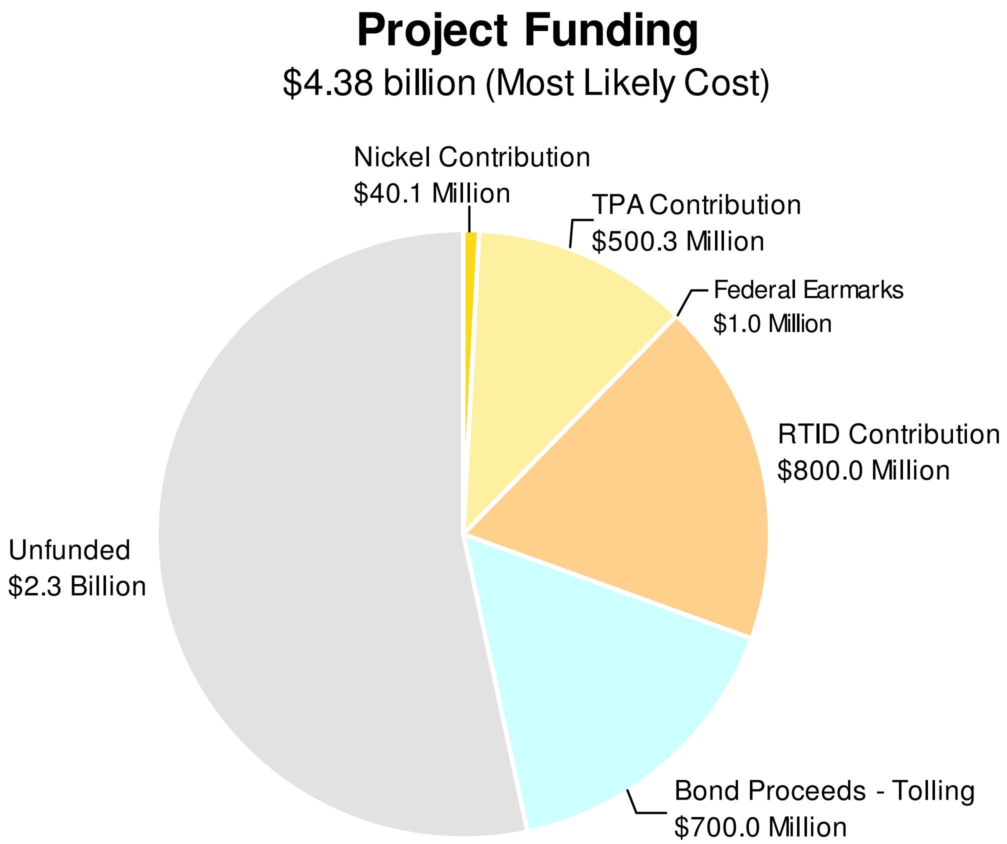
Washington State Department of Transportation

ERP recommendation:

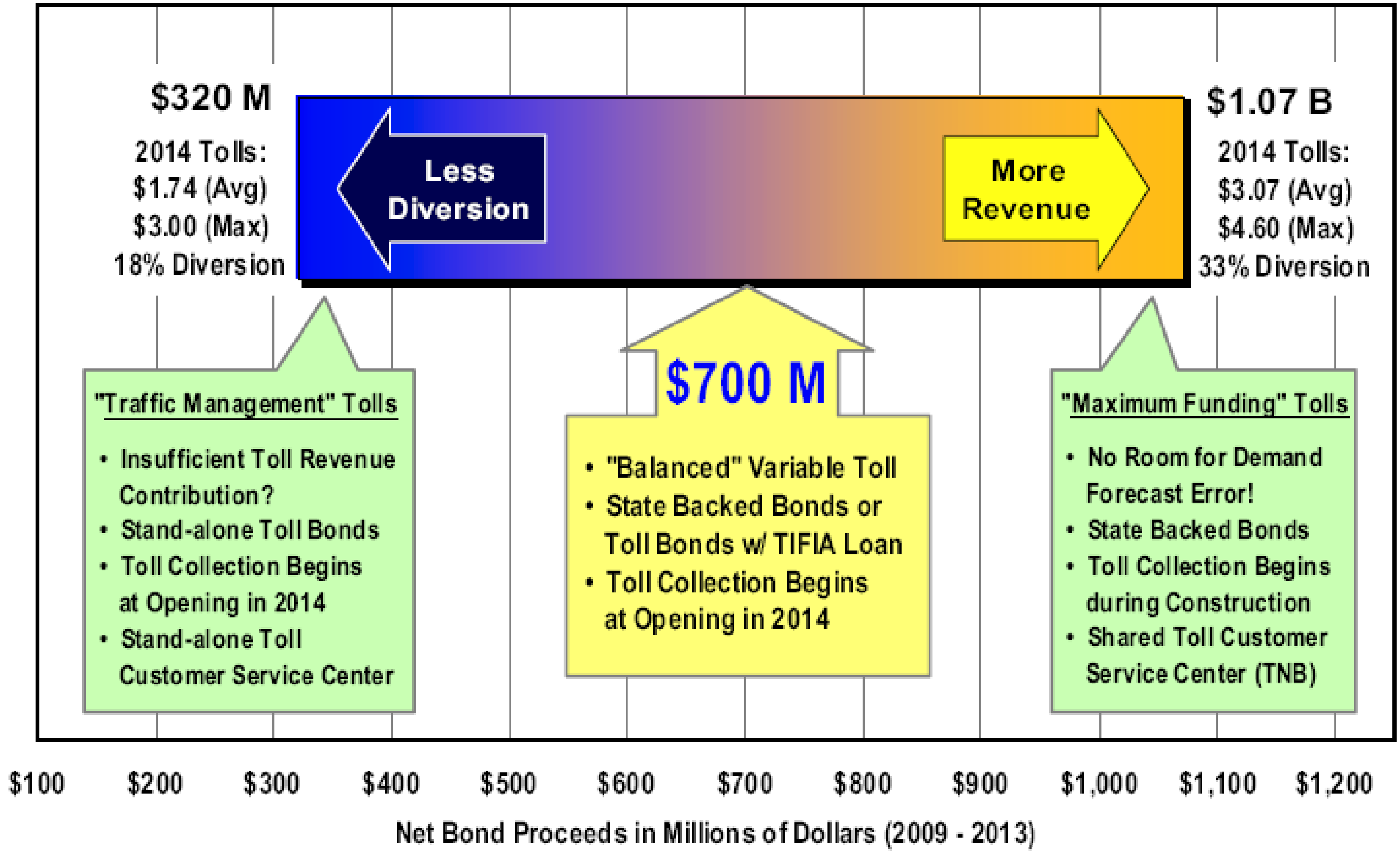
"For both projects, the state should aggressively pursue other sources of funding, such as *regional tolling* and *public-private partnerships*, *particularly for SR 520*."

Capital Funding for Construction of the SR 520 Bridge Replacement and HOV Project
(Assumes 6-lane alternative, Pacific interchange option, and pontoons expandable for high capacity transit.)



Washington State Department of Transportation

Toll Revenue Financial Capacity Ranges — Six-Lane Alternative



Toll-based financing is comprised of these basic factors:

Traffic (Volume)

X

Tolls (Price)

= Gross Toll Revenue

(--)

Operations & Maintenance

(--)

Lifecycle (Replacement & Renewal)

= Net Toll Revenue Available for Debt Service

Financing Structure

= Construction Proceeds

…but key policy choices are imbedded within this structure!

Traffic (Vol.)

When do you collect tolls?

Tolls during construction?

Where do you collect tolls?

Approaches and arterials?

How do you *reduce diversion* to other routes?

Cross-Lake WA toll authority?

X

Tolls (Price)

What is the tolling regime:

- Maximize revenue or system efficiency?
- How are toll rates adjusted?

= Gross Toll Revenue

(--)

Operations & Maintenance

What are the cost assumptions? e.g.:

- Mgmt. & Admin structure?
- Maintenance costs?
- Method of toll collection?
- Enforcement?

(--)

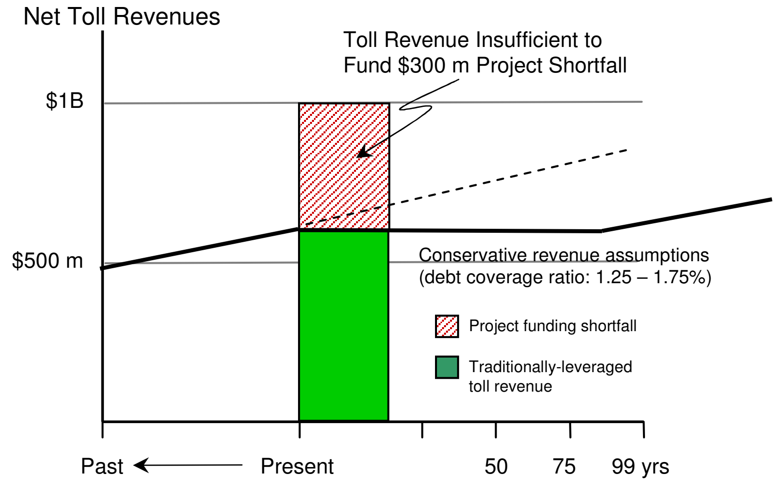
Lifecycle Costs

How will this be funded?

- Bond covenants?
- Out of MVF (similar to TNB financing)?
- Risk transfer?

Conceptual difference between Municipal Bond financing vs. Equity-based financing

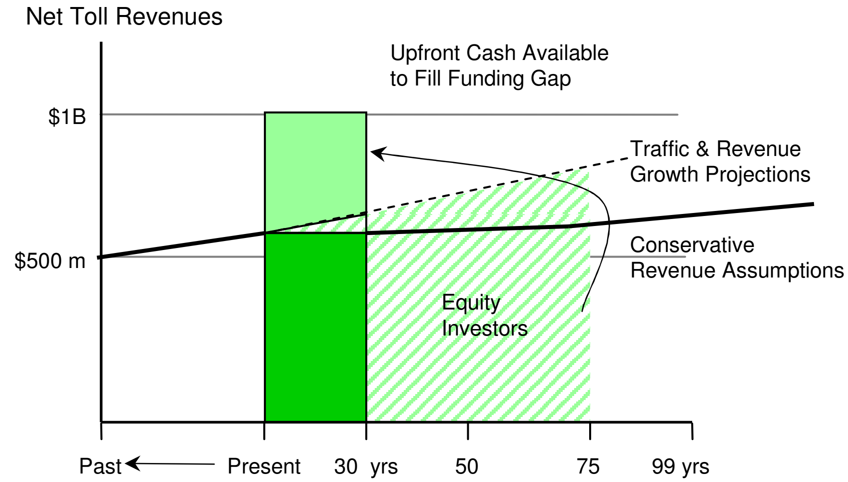
Typical State-issued Revenue Bond Approach to a One Billion Dollar Project



Investors in traditional government bonds make *conservative revenue assumptions* and accept low risk.

Result: The total amount of bond proceeds willing to be loaned against the expected project revenues is relatively low.

Equity-based Financing Approach to a One Billion Dollar Project



Investors in a long-term equity-based financing expect strong future returns based on projected traffic and revenue growth – they are willing to take more investment risk, and are able to sustain negative returns in the early years of a new toll facility in the expectation of positive returns in the long-run. They also benefit from tax advantages (depreciation) available to equity investors.

Result: Concession investors will make investments of equity and debt that translates into much higher levels of “up-front” funding capacity placed in the hands of their public sector partner.

Financial Structuring also presents policy choices

= Net Toll Revenue Available for Debt Service

Financing Structure

= Construction Proceeds

Investment horizon?

Toll collections – how long?

Financing obligations (debt) – how long?

Lowest cost of capital vs. need to obtain a certain yield?

Rates:

Interest rates on bonds

Rate of return on equity

Ability to maximize leverage on net revenue?

Debt coverage ratios:

- Muni bonds
- Equity
- MVF back-stop?

Traffic & Revenue (T/R) Risk:

What happens when Net Revenues are insufficient to make debt service payments?

Denver Post June 1, 2006

Truth be tolled | first in a three-part series

Roads to riches

Paved with bad projections

"…A review of 23 new turnpikes nationwide shows that a clear majority are failing to meet revenue projections to justify their costs.

Even with adjustments for the break-in period in the opening years, 86 percent of new toll roads in states failed to meet expectations in their first full year.

By year three, 75 percent - 15 of the 20 that have been open that long - remained poor performers."